



A Publication of The College of Agriculture  
UNIVERSITY OF CALIFORNIA

# PRICING

## Intermarket Transfers of

# BULK GRADE A

# CREAM AND SKIM MILK

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CALIFORNIA AGRICULTURAL  
EXPERIMENT STATION

BULLETIN 732



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**P**rices for market grade milk in California have been established for over a decade under the provisions of the Agricultural Code. During that period, economic conditions have, in general, been favorable to the market milk industry—a situation which has, in turn, favored operation of this form of price control.

Early in 1951 the State Legislature was advised that, in the opinion of some, the price stability of the dairy industry was again threatened in spite of prevailing favorable conditions. The threat, it was claimed, arose from (1) the practice of price cutting on fluid cream sales in some markets and (2) alleged use, for Class I purposes, of skim milk which had been derived from milk in which the milk fat had been used for Class II or III purposes. Basic to both of the above has been the interpretation of the Agricultural Code which excludes intermarket transfers of bulk Grade A cream and skim milk from direct price control.

**THIS BULLETIN** presents the results of a study undertaken at the request of the State Senate. The objectives of the study were to determine the effects of the exemption from control of this source of supply of Grade A milk products and to recommend changes in the pricing policy of the Bureau of Milk Control should the stability of the dairy industry appear to be jeopardized.

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# PRICING INTERMARKET TRANSFERS of Bulk Grade A Cream and Skim Milk<sup>1</sup>

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UNDER THE PROVISIONS of the Agricultural Code, prices for market grade milk have been established in California by state agency for over a decade. Among the justifications leading to this price control was a belief that the fluid milk industry was inherently unstable under conditions existing during the 1930's as evidenced by the resale price wars prior to control. These price wars were accompanied by bankruptcies and default on payments to producers and were, therefore, considered to constitute a serious threat to the long-run milk supply of the state.

Economic conditions during the existence of milk control in California have generally been favorable to the market milk industry. Demand has increased as a result of the rapid increases in population and the over-all increases in per capita consumption. Market milk supplies have not increased as rapidly as has consumption of fluid milk. As a result, higher proportions of the milk produced within the state have been allocated to fluid consumption, thus receiving the relatively higher prices provided under

the classified milk price system. In general, this relatively prosperous period for the industry has also favored the operation of this form of price control since increased demands on the comparatively limited supplies have resulted in a substantial reduction of the pressures which lead to price wars.

In spite of these favorable conditions, it was brought to the attention of the State Legislature early in 1951 that certain practices existed which, in the opinion of some, again threatened the price stability of the dairy industry. These practices included (1) price cutting on fluid cream sales in some markets and (2) alleged use, for Class I purposes, of skim milk that had been derived from milk in which the milk fat had been used for Class II or III purposes. This, of course, becomes important under conditions where the fat usage determines the price paid to producers for whole milk.

As a result, the Senate passed a series of resolutions requesting additional information on the nature and extent of the problem and recommendations concerning changes in the pricing policy of the Bureau of Milk Control in the event that the above-mentioned circumstances appeared to threaten the stability of the dairy industry.<sup>2</sup>

<sup>1</sup> This study was financed in part by funds made available by the Bureau of Milk Control, California Department of Agriculture, under the authority of Senate Resolution No. 147 of the 1951 Legislative Session. In addition, substantial cooperation was provided by personnel of the Bureau in collecting the large quantity of records from individual plants that was required to carry out the analysis.

<sup>2</sup> These are Senate Resolutions Nos. 110, 130, and 147, respectively, of the 1951 session of the Legislature of the State of California. Copies of these resolutions appear in the Appendix.

## PRICING PRACTICES AT THE PRODUCER LEVEL

In California, milk of market quality—thus eligible for use as fluid milk and cream—is paid for according to a “classified price plan.” This procedure is common in most major milk markets of the nation. The classifications of uses differ among markets throughout the country, but the essential feature of such plans is that milk values vary among these alternative uses. In California, Class I milk includes “any fluid milk or the cream therefrom that is supplied to consumers as market milk or market cream or concentrated milk or any combinations of market milk and market cream, or any market milk which is not packaged in hermetically sealed containers, or any other dairy product in which the use of market milk is required by the provisions of this code, or any fluid milk or the cream therefrom which is used in standardizing market milk.”<sup>3</sup> Included among

the other dairy products requiring the use of market milk are such nonfat containing products as fluid skim milk and chocolate drink. Class II milk includes milk used for any purpose other than Class I or III, while Class III milk is specifically that which is used in the manufacture of butter or cheese other than cottage cheese. Minimum prices, by classification, are established by the California Bureau of Milk Control, and enforcement agents of the Bureau make periodic audits of distributor records to determine that proper accounting has been made to producers. In recent years, the prices established for Class II and III uses have been identical and have followed closely the levels of manufacturing grade milk prices. This is a reasonable price relationship in view of the fact that the Class II and III uses involve manufactured dairy products for which manufacturing grade milk is acceptable. Class I prices—those prevailing for milk

<sup>3</sup> Agricultural Code of California, Section 735.3, Article 1, Chapter 13.

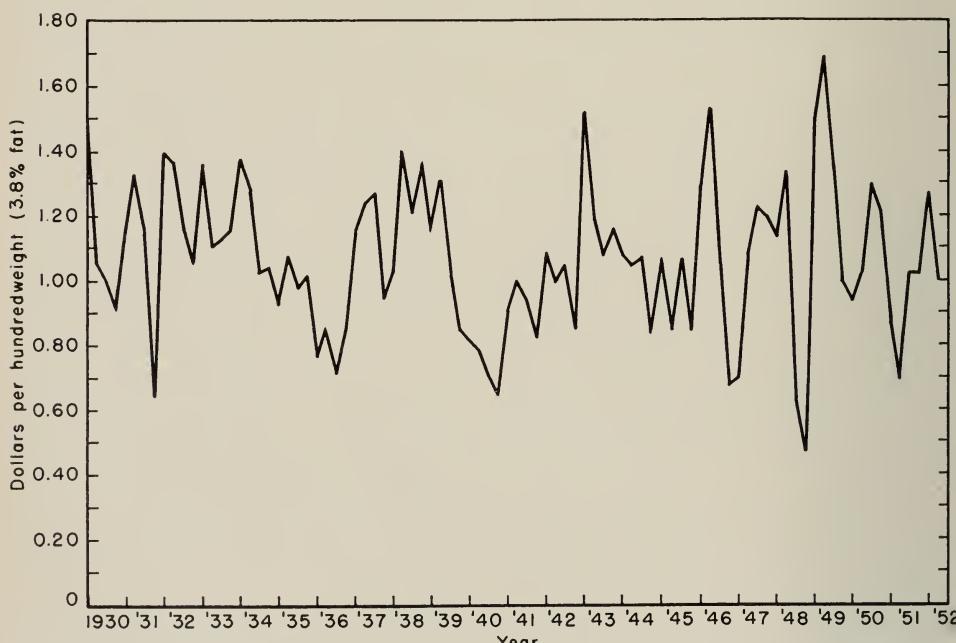


Fig. 1.—Grade A differentials. Amounts by which Class I prices exceeded manufacturing milk prices. (F.o.b. Valley plants, California, 1930–1952.)

used as fluid milk or fluid cream—have been historically set at a level higher than the Class II and III prices, and reflect the relatively higher prices of fluid milk over those for manufactured products and the added costs of producing milk of market grade quality. During the past 20 years, the amount of the premium of

Class I over Class II and III prices has fluctuated but has averaged approximately one dollar a hundredweight. The Grade A premiums, or the excess of Class I prices over manufacturing milk prices, where both are determined at Valley plant locations, are charted on Figure 1 for the period from 1930 to 1952.

## NATURE OF THE PROBLEM AND OBJECTIVES OF THE STUDY

In carrying out the provisions of the Agricultural Code, the Director of Agriculture, through the Bureau of Milk Control, has established several milk marketing areas, the single criterion for the establishment of an individual area being that the Director "finds the conditions affecting the production, distribution, and sale of fluid milk, fluid cream, or both are reasonably uniform."<sup>4</sup> In practice, virtually every major concentration of population within the state comprises a separate marketing area. At present, there are more than 30 such marketing areas.

Prices to be paid producers, by use classification, and rules and regulations are set forth in the Stabilization and Marketing Plan drawn up for each marketing area. Each of these plans contains the statement that the prices provided relate to payments to be made by "each distributor within this State, who receives or otherwise handles fluid milk for distribution within the [specified] Marketing Area. . . ." This has been interpreted by the Bureau and by the industry to mean that control over prices provided by the milk control laws extends only to those supplies received as *whole milk* and disposed of within the various classifications *in a single marketing area*. Under such interpretation, whole milk received by a plant and separated into cream and skim milk which are shipped to plants in *other* marketing areas does not come under Bureau of Milk Control jurisdiction.

tion.<sup>5</sup> At the present time, therefore, these bulk intermarket shipments of Grade A cream and skim milk are the only phases of the market milk industry that are not subject to rigid pricing restrictions.

One further fact of importance to this problem is that the procedure used by the Bureau of Milk Control to determine utilization classification depends entirely upon the usage of milk fat. In other words, sales are audited on the basis of the quantities of fat used in the various products, and this audit determines the amount of *whole milk* to be accounted for at the various class prices. To the extent that both the fat and the skim components of Class I milk carry a "Grade A premium,"<sup>6</sup> it is necessary to assume that the Class I utilization of all skim milk receipts closely approximates that of the milk fat. It is apparent that if the Class I skim milk usage of one distributor exceeds his Class I usage of fat, he may receive skim milk which is used for Class I purposes at Class II or III prices. Conversely, should the Class I sales of fat containing products outweigh the Class I usage of skim products in the case of another distributor, the latter will have

<sup>4</sup> Unless a Stabilization and Marketing Plan for Fluid Cream is in effect in the marketing area receiving such fluid cream. At the present time, such cream plans are operative only in the Alameda-Contra Costa and the San Joaquin marketing areas.

<sup>6</sup> The excess of the Class I price over manufacturing grade (or Class II or III) prices representing the payment for higher quality required for sale as fluid milk, fluid cream, or such nonfat containing products as fluid skim milk and chocolate drink.

<sup>4</sup> Agricultural Code of California, Section 736, Article 2, Chapter 13.

been penalized to the extent of being required to pay Class I prices for the skim elements of the milk he receives from producers, but for which he has no Class I outlet.

The basic objective of this study is to evaluate the impact of the omission of this source of cream supplies—those obtained from extra-area plants—from price regulation. This will be done by

determining: (1) the extent and importance of such intermarket movements of Grade A cream and skim milk; (2) the prices producers are receiving for that portion of their supply which is utilized in such a manner; (3) the utilization of bulk cream and skim milk supplies by receiving plants; and (4) the interplant resale prices for bulk shipments of cream and skim milk.

## EXTENT AND IMPORTANCE OF INTERMARKET SHIPMENTS OF GRADE A CREAM AND SKIM MILK

The quantities of bulk intermarket transfers of Grade A cream and skim milk made during the period from June, 1950, through May, 1951, are given in Table 1.<sup>7</sup>

<sup>7</sup> These totals represent an estimate which was obtained in the following manner:

1. A survey was made of total intermarket bulk cream and skim milk shipments based on monthly reports made by plants to the Bureau of Milk Control.

2. On the basis of these records, 49 plants were visited and data on shipments were directly

The 8.7 million pounds of fat shipped as cream represent approximately 23 million pounds of cream of 38 per cent milk fat or, converted into an equivalent basis,

obtained. These plants accounted for nearly 98 per cent of the total reported cream shipments of this type. The data for these plants as determined by direct visits were accepted as representing shipments by these 49 plants.

3. Quantities reported by the remaining plants, from monthly statistical reports, were added to the above to determine the total.

**Table 1.—Intermarket Shipments of Bulk Grade A Cream and Skim Milk, June, 1950–May, 1951\***

Month	Cream milk fat, pounds	Skim milk product pounds
<b>1950:</b>		
June .....	1,080,537	831,013
July .....	956,420	1,151,985
August .....	890,397	780,694
September .....	654,349	1,514,818
October .....	500,941	2,637,795
November .....	486,123	2,802,268
December .....	517,884	3,946,458
<b>1951:</b>		
January .....	502,599	2,841,186
February .....	544,756	1,995,314
March .....	699,754	1,818,409
April .....	903,701	1,088,704
May .....	975,413	938,219
<b>Total . . . . .</b>	<b>8,712,874</b>	<b>22,346,863</b>

\* Source: Data collected from plant records plus supplementary information from Bureau of Milk Control files.

nearly 2.5 million hundredweight of whole milk. During the same period, the total market milk receipts in California amounted to 145.3 million pounds of milk fat. This would indicate that the amount of milk fat involved in bulk intermarket shipments of cream constituted approximately 6 per cent of the total commercial production of milk of market grade.<sup>8</sup> It is also apparent from Table 1 that skim milk shipments are not so important as those of cream since the amount of skim

milk reported is only about 10 per cent of the quantities derived from the separation of the cream shipments.

Wide seasonal variations of shipments are noted with the pattern of shipments of skim milk running counter to that for cream. Cream shipments during the low month of November amounted to only 45 per cent of the quantity shipped in June, while the December peak in skim milk shipments amounted to 475 per cent of the June quantities.

## **PRICES PAID PRODUCERS FOR MILK USED FOR CREAM FOR INTERMARKET SHIPMENT**

The data required for this part of the analysis were obtained directly from plant records. In an attempt to get accurate information at a minimum cost, the plants that made intermarket shipments of bulk Grade A cream were divided into two groups. In the first, and most important from this standpoint, are those which are commonly considered as "country plants." Most of them are located in the San Joaquin Valley—the "reservoir" of milk supplies for the major California markets. The principal function of these plants is to receive milk from local producers and assemble it for reshipment to other markets—usually in bulk tank trucks. The second category must be considered as a miscellaneous classification. This consists of plants primarily concerned with processing and distributing fluid milk and cream but which may also serve as a source of supply for the needs of other plants. Some plants in this group divert surplus fat in excess of Class I requirements because of lack of available manufacturing facilities.

### **Producer Payments by Country**

**Plants.**—Seventeen plants were included in the first group where major emphasis is on receiving milk and reshipping it either as whole milk or its constituents. For each of these plants, detailed records were collected as follows.

1. The total receipts of milk at the plant for months in which cream and/or skim was shipped—in both product pounds and fat pounds.
2. The amounts of those receipts that were paid for at Class I prices for those months.
3. An itemization of the plant disposition of total receipts—i.e., sales of milk to other plants, local sales of milk and cream, and sales of cream and/or skim milk to plants in other areas, etc.
4. The prices paid for all milk purchased at Class I prices and the corresponding average test of Class I milk if different from the average test of all milk.
5. The prices paid for all milk purchased at prices other than Class I.
6. The prices received for interplant, interarea sales of cream and skim milk.

The approximate location and the relative size of cream shipments made by these 17 plants are shown in Figure 2. The destination of cream shipments—to plants in either of the two major market

<sup>8</sup> It should be noted that total receipts of market milk are not synonymous with commercial market milk production, since milk of market quality delivered to manufacturing plants—e.g., due to lack of an adequate market—is not included in the market, or Grade A, milk receipts.

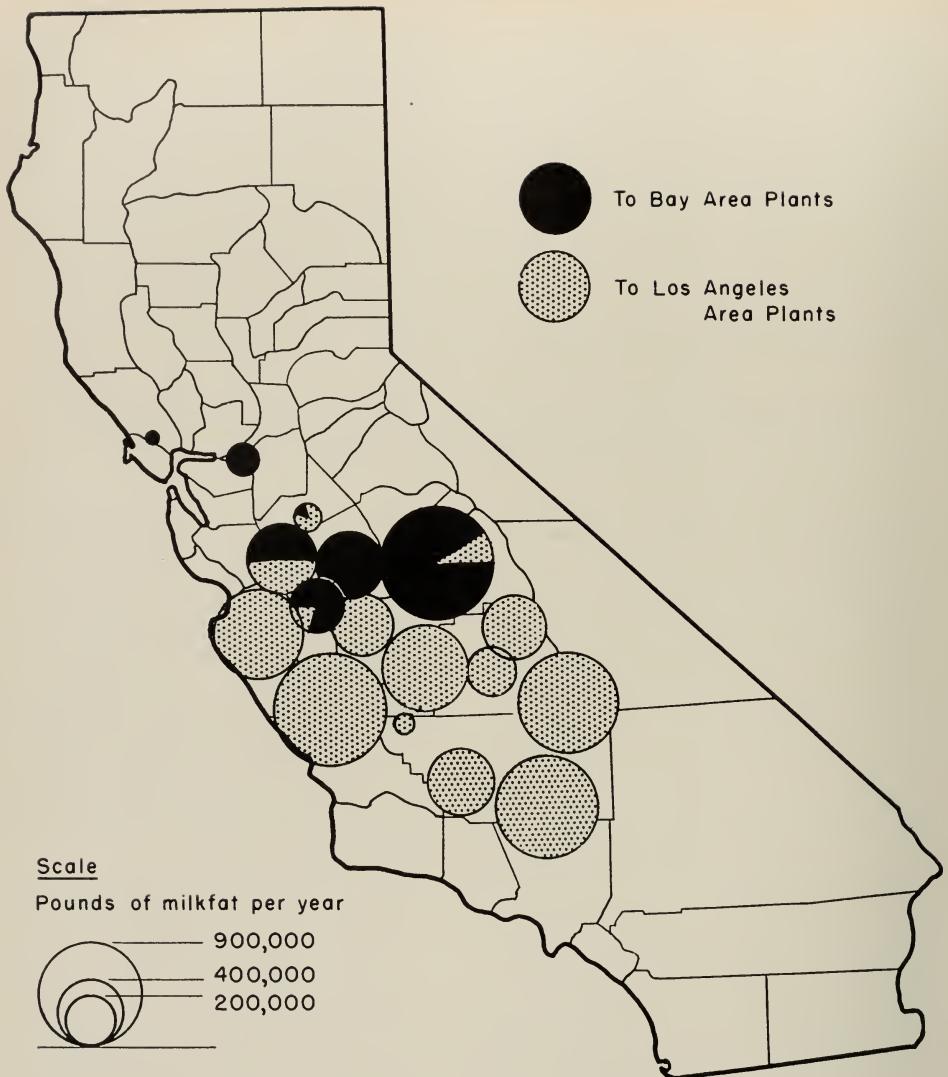


Fig. 2.—Approximate location and size of shipments of Grade A cream,  
17 country plants, June, 1950–May, 1951.

areas of the state—is indicated by the shading within the circles representing individual plants. Note that there are wide differences in the shipments and that only four of the country plants studied shipped cream to city plants in both the Los Angeles and the Bay areas.

As already noted, all milk purchased from producers and utilized within the same marketing area in the form of fluid milk or fluid cream must be paid for at

Class I (the highest) prices. Furthermore, milk received in one marketing area and shipped in the form of whole milk to another marketing area is also designated as Class I.<sup>9</sup> If the milk is separated into its components of cream and skim milk and then shipped to an area outside of the one in which it was received, however, there is no longer a

<sup>9</sup> Unless proof is provided that actual usage of this milk was other than Class I.

requirement that it be accounted for according to final utilization.

It is mandatory, however, that each distributor or country plant receiving milk from producers make a contract with each producer. These contracts must state the amount of milk which the distributor agrees to purchase and, within this, the minimum amount that the distributor guarantees to pay for at Class I prices. The minimum quantity for which any producer will receive these preferred Class I prices will depend, therefore, on the average percentage of Class I utilization<sup>10</sup> or on the contract guarantee—whichever is the higher. In any case, the amount of milk actually paid for as Class I will equal or exceed the amount of Class I utilization. Furthermore, milk paid for at less than Class I prices may be priced at several levels depending on whether or not it is in excess of the total amount which the distributor agreed to purchase in the contract. In cases where country plants follow the practice of pricing "surplus"<sup>11</sup> milk at different levels, the average price received by producers for milk used as cream or skim milk may be a composite or "blend" of three prices—the Class I price, a price for the balance of "contract" milk over the Class I guarantee, and an over-contract price. The over-contract price is usually the established Class II price (reflecting values at Valley condenseries), while the within-contract non-Class I price is frequently about 10 cents per hundredweight higher. Depending upon market conditions, however, these prices may be higher than Class II levels, the upper limit being 100 per cent Class I payments.

The level of Class I prices paid to producers by any given plant is determined by the area in which the milk is ultimately sold. In the case of these country plants,

<sup>10</sup> In the case of a country plant, the local sales within the marketing area plus the amount of bulk milk shipment to other marketing areas.

<sup>11</sup> As used in this sense, all milk that was not paid for at Class I prices.

milk sold as fluid milk or cream within the local market area is priced according to the f.o.b. plant prices for Class I milk established by the Bureau of Milk Control for that area. When the milk is reshipped to another marketing area—for example, from Valley plants to Los Angeles—the price paid is the Class I price in the market of destination, with allowances made for country plant handling and interplant transportation charges. Recently, these charges, or deductions from Class I prices—which are also established by the Bureau of Milk Control—have been 24 cents per hundredweight for country plant handling allowance, with the maximum transport charges based on common carrier rates or prevailing contract hauler charges between the specific points involved.

Despite the fact that these plants are not legally required to pay Class I prices for milk used for intermarket cream shipments, all of the plants studied paid Class I prices for a part of those supplies during the 1950–51 period under consideration. In fact, most of the plants paid Class I prices for all milk received during the months of low production (the late fall and winter months) regardless of the utilization to which it was put or the amount stipulated by contract. This has meant that there was milk purchased by country plants at Class I prices which was not used for Class I purposes as currently defined. Accordingly, the average prices paid to producers for milk utilized for cream and skim milk are influenced by the fact that some of the milk going into those uses may have been paid for at the higher price levels.

Prices paid producers for the average test of milk received and used for intermediate bulk cream shipments have been calculated for the 17 plants from which records have been obtained.<sup>12</sup> The aggre-

<sup>12</sup> Calculations have been made as follows:

1. The amount of fat shipped as cream was determined.
2. The amount of fat (if any) which was paid

**Table 2.—Summary of Intermarket Bulk Grade A Cream Shipments and Prices Paid Producers for Milk Separated into Cream, by 17 Country Plants, June, 1950–May, 1951**

Month	Amount of cream shipped	Milk equivalent of cream shipped*	Amount of milk equivalent used for cream purchased at Class I prices	Milk equivalent purchased at Class I prices	Weighted average net Class I price	Weighted average non-Class I price	Weighted average net price paid for all milk used for cream	Difference between Class I price and price paid for milk used for cream
								dollars per hundredweight
1950:	996,272.76	278,001	75,681	27.2	3.99†	2.81†	3.13†	0.86
	907,549.94	254,001	66,757	26.3	3.77	2.88	3.12	0.65
	836,515.83	230,347	61,969	26.9	3.87	2.98	3.22	0.65
	610,815.83	163,781	88,637	54.1	3.93	3.29	3.64	0.29
	429,239.30	112,694	51,818	46.0	3.99	3.40	3.67	0.32
	426,908.39	109,902	51,984	47.3	4.06	3.66	3.85	0.21
	471,610.61	119,119	71,117	59.7	4.16	3.68	3.97	0.19
	444,905.79	111,843	62,287	55.7	4.65†	3.89†	4.31†	0.34
	497,697.81	127,070	69,840	55.0	4.56	3.97	4.29	0.27
	648,381.32	169,776	78,865	46.5	4.46	4.10	4.27	0.19
	851,501.47	233,644	131,652	56.3	4.28	3.76	4.06	0.22
	917,794.31	254,621	157,510	61.9	4.23	3.79	4.06	0.17
	8,039,193.36	2,164,799	968,117	44.7	4.18	3.34	3.72	0.46

\* Calculated on the basis of the average fat content of incoming whole milk.

† Including deductions for transportation and handling.

‡ Note that price level for Grade A milk was increased on January 1, 1951.

gate volume of cream shipped by these plants accounts for over 92 per cent of the total milk fat reported in Table 1. A summary of the shipments, the average prices paid for milk used for cream, the average non-Class I prices, and the average Class I prices for these 17 plants are presented in Table 2. For the period from June, 1950, to May, 1951, these plants paid Class I prices, on the average, for about 45 per cent of all milk which was used for intermarket bulk cream shipments. For this 45 per cent, an average net Class I price of \$4.18 per hundred-weight was paid. The remaining 55 per cent of the milk from which the cream for intermarket bulk shipments was derived was purchased at an average price of \$3.34. The resulting weighted average price paid for all of the milk that was used for such cream was \$3.72.<sup>13</sup>

In Table 2, note the way the difference or "spread" between the net Class I prices and the average prices paid for milk used for cream narrowed during the late fall and winter months, reflecting (1) the higher proportions of milk which were paid for at Class I prices and (2) the relatively more rapid increase in the non-Class I prices, thus narrowing the Class I differential. These differences between Class I prices and the "blend" for all milk used for cream are shown for individual plants in Table 3. This, again, points up the fact that many of these plants paid Class I prices for cream supplies for inter-

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for at Class I prices in excess of actual Class I utilization was assumed to have been used for fluid cream.

3. Amounts of fat in addition to this, required to meet cream needs, were valued at prices reported paid for milk other than Class I.

4. The total amount of money paid for milk used for cream (paid for at Class I and other than Class I prices) was then divided by the total amount of milk required to meet cream needs.

<sup>13</sup> These are net prices in that all deductions for plant handling and plant-to-plant transportation charges have been made. They represent the average f.o.b. country plant price.

market shipments during the low production period. In addition, this table shows the variations in pricing policies apparently followed by these firms with respect to milk used for cream. Many of the plants—including those with the largest volumes—paid Class I prices for all milk received during the late fall and winter months. Some of these plants continued a 100 per cent Class I price program throughout the spring and summer months of the period studied. On the other hand, three plants (1, 3, and 7) purchased milk for cream at non-Class I prices during all months of the period. Plant 6 followed a special policy, and made no sales of products currently defined as Class I, nor did the contracts between this plant and producers call for any milk to be paid for at Class I prices. Consequently, this plant did not purchase any milk as Class I, but instead paid for all milk at a flat price—typically between Class I and manufacturing grade levels. However, even in this case, the prices paid equaled or exceeded calculated Class I prices during the months of November and December. Note the wide divergences between the Class I prices and the prices paid for milk for cream at plant 17. These result directly from the fact that this distributor provides, in his contract with producers, that all milk fat in excess of the contract quantity which is used as cream and sold to plants in other marketing areas shall be paid for according to the San Francisco butter quotation. Prices calculated by this procedure can normally be expected to average at least 20 per cent below the Valley condensery price which is followed by virtually all other plants for non-Class I milk.<sup>14</sup>

<sup>14</sup> Two reasons govern this relation. First, butter contains about 80 per cent butterfat; thus, on the average, about 1.2 pounds of butter are manufactured from each pound of milk fat. Second, in this area, net returns from evaporated milk exceed those from butter manufacture, and frequently the Valley condenseries pay producer prices which exceed the "net value" of the raw milk for use in butter making.

**Table 3.—Difference between Prices Paid for Milk Used for Cream and Net Class I Prices, 17 Country Plants**  
**June, 1950—May, 1951**

Month	Plant designation																
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
dollars per hundredweight for average test of milk received																	
1950:																	
June . . . . .	0.81	1.44	0.73	...	* 0.47	0.59	0.83	0.73	0.68	0.58	0.76	0.00†	...	0.31	0.49	0.71	0.72
July . . . . .	0.83	1.39	0.71	...	0.44	0.60	0.87	0.87	0.37	0.52	0.69	...	0.19	0.53	0.81	0.00	
August . . . . .	0.68	1.39	0.66	0.80	0.50	0.56	0.86	0.84	0.23	0.52	0.58	...	0.69	0.27	0.57	0.71	0.00
September . . . . .	0.60	1.41	0.69	0.00	0.35	0.38	0.34	0.18	0.00	0.61	0.54	...	1.18	0.00	0.00	0.00	0.00
October . . . . .	0.92	0.47	0.48	0.00	0.19	0.96	0.02	0.00	0.72	0.43	0.00	...	0.00	0.00	0.00	1.21	0.00
November . . . . .	0.80	...	0.53	0.00	0.00	0.42	0.00	0.00	0.68	0.31	0.00	...	0.00	0.00	0.00	1.62	0.00
December . . . . .	0.60	...	0.45	0.00	0.00	0.51	0.00	0.00	...	...	...	1.07	0.00	0.00	0.00	1.61	0.00
1951:																	
January . . . . .	0.95	...	0.74	...	0.00	0.21	0.38	0.00	0.00	...	0.00	...	0.00	0.00	0.00	0.00	2.01
February . . . . .	0.82	...	0.76	...	0.00	0.24	0.38	0.06	0.00	...	0.52	...	0.00	0.00	0.00	0.00	2.18
March . . . . .	0.77	...	0.54	0.00	0.00	0.32	0.39	0.31	0.07	...	0.00	...	0.00	0.19	0.00	1.88	0.00
April . . . . .	0.63	...	0.33	0.00	0.00	0.31	0.42	0.19	0.00	...	0.00	...	0.00	0.19	0.00	1.94	0.00
May . . . . .	0.62	...	0.37	0.00	0.00	0.22	0.41	0.00	0.00	...	0.13	...	0.00	0.16	0.00	1.15	0.00

\* . . . indicate no intermarket cream shipments were made during the month.

† Zeros indicate that Class I prices were paid for all milk used as cream.

### **"Bonus" Payments to Producers.**

—Competition for milk supplies—including both manufacturing and market grade milk—among plants in the San Joaquin Valley is keen. This has been particularly true in recent years when increases in total consumption within the state as a whole have outstripped changes in production. Due to this competition, rival distributors are loath to initiate price decreases. Correspondingly, they are quick to meet additional price incentives offered by others.

Both proprietary and coöperative types of ownership exist among these Valley plants. It is the contention of some that the coöperatives "set" the manufacturing grade milk price in the sense that the individual proprietary concerns attempt to pay their patrons prices at least as high as those paid by coöperatives. More recently—since the period covered by this study—proprietary concerns in the Valley have been following an even more aggressive price policy, wherein prices paid by the plants rather consistently exceed those returned by the coöperatives. Furthermore, many of the private plants make a policy of meeting (and often exceeding) the bonus paid out by the coöps at the end of each year of successful operation. This bonus is normally paid on the basis of the volume delivered, and applies both to manufacturing and to market grade milk producers and, within the latter grade, to both Class I and Class II usages.

Essentially, the bonus—while at times paid out on a current basis—represents a retroactive payment in addition to that specifically identified during the accounting period. During the seven months of 1950 that were included in the study, the bonus payment averaged about 8 to 8½ cents per hundredweight. It dropped to an average of 4 cents per hundredweight during the first five months of 1951. As the bonus is paid on all milk delivered, technically it does not affect the amount of milk which is reported to have been

purchased at the Class I prices. The bonus does, of course, influence the level of the average prices paid for all classifications. This means that individual producers received higher prices for their milk than the buyers were actually required to pay under the current Bureau of Milk Control regulations.

**Producer Payments by Miscellaneous Plants.**—As mentioned previously, while the majority of the bulk cream shipments with which this study is concerned was made by the 17 plants just discussed, other plants also made shipments of this type. These shipments were predominantly between plants primarily concerned with processing and distributing fluid milk, although some shipments of "surplus" cream to manufacturing plants, or to fluid milk plants with manufacturing facilities (for example, ice cream departments, etc.), were noted.

Thirty-two plants in this category were visited, and records were obtained concerning the interplant bulk shipments of cream and skim milk, and the prices paid producers for the milk from which these supplies were derived. In general, the records obtained from these plants were not in so great detail as those relating to the 17 country plants, but were sufficient to allow similar computations to be made. The results of the summaries of the records for these 32 plants are presented in Table 4.

Slightly less than one-half million pounds of milk fat in cream were shipped by these plants during the period studied, which constituted the equivalent of a little more than  $1\frac{1}{4}$  million product pounds of cream. This accounts for 5.5 per cent of the total cream reported shipped and, together with that shipped by country plants, covers approximately 98 per cent of all bulk intermarket cream shipments made during the period.

It will be noted from the summary table that about 43 per cent of this cream was purchased at Class I prices—approximately the same as that determined for the

**Table 4.—Summary of Intermarket Bulk Grade A Cream Shipments and Prices Paid Producers for Milk Separated into Cream, by 32 Supplementary Plants, June, 1950–May, 1951**

Month	Amount of cream shipped	Milk equivalent of cream shipped	Amount of milk equivalent used for cream purchased at Class I prices	Milk equivalent purchased at Class I prices	per cent of total			Weighted average net price paid for all milk used for cream	Difference between Class I price and price paid for milk used for cream
					milk fat, pounds	hundredweight*	Weighted average net Class I price	Weighted average net non-Class I price	
<b>1950:</b>									
June . . . . .	63,245.26	17,666	5,424	30.7	4.29	2.91	3.33	0.96	
July . . . . .	26,839.65	7,518	2,632	35.0	4.35	2.85	3.37	0.98	
August . . . . .	30,192.00	8,317	4,043	48.6	4.44	2.96	3.68	0.76	
September . . . . .	23,145.84	6,205	3,507	56.5	4.48	3.18	3.91	0.57	
October . . . . .	47,289.10	12,412	7,889	63.6	4.55	3.44	4.15	0.40	
November . . . . .	46,157.82	11,896	6,420	54.0	4.70	3.62	4.20	0.50	
December . . . . .	38,246.98	9,658	4,571	47.3	4.89	3.66	4.24	0.65	
<b>1951:</b>									
January . . . . .	53,308.00	13,394	6,348	47.4	5.17	3.93	4.52	0.65	
February . . . . .	41,112.29	10,488	4,165	39.7	5.19	3.94	4.43	0.76	
March . . . . .	43,870.13	11,484	3,378	29.4	5.10	3.79	4.18	0.92	
April . . . . .	32,148.61	8,832	1,888	21.4	4.76	3.76	3.98	0.78	
May . . . . .	37,541.66	10,428	4,833	46.3	4.62	3.80	4.18	0.44	
Summary for period . . . . .	483,097.34	128,298	55,098	42.9	4.63	3.45	3.96	0.67	

\* Converted from fat pounds to hundredweight by applying average monthly test of incoming milk as determined from records of 17 country plants.

larger volume country plants. The weighted average Class I price paid for this 43 per cent was \$4.63 per hundred-weight, while the remaining 57 per cent was purchased at an average of \$3.45. The resulting weighted average price paid for all of the milk that was used for cream

amounted to \$3.96. The relatively higher Class I price indicated for plants in this group over that for the country plants reflects the fact that many of the plants in this second category are located in or near the larger metropolitan areas where higher Class I prices prevail.

## PRODUCER PAYMENTS FOR SKIM MILK

As mentioned previously, class prices paid to producers are determined on the basis of the utilization of fat, under California procedures. Hence, prices paid for skim milk shipments can be determined from the data showing payments for milk used for cream. As already noted, the skim milk shipments accounted for only 10 per cent of the total skim milk derived from cream separation. The remaining

90 per cent—or roughly 2.3 million hundredweight of skim milk—was retained at these country plants where it was utilized primarily for manufactured dairy products. Since approximately 45 per cent of the milk separated for cream shipments was accounted for at Class I prices, considerably more skim milk was paid for at Class I prices than actually was used for these intermarket shipments.<sup>15</sup>

## UTILIZATION OF INTERMARKET BULK SHIPMENTS OF CREAM AND SKIM MILK

These summary data on prices paid have indicated that considerable quantities of Grade A cream, purchased at widely divergent prices, are moving between plants located in different marketing areas. A portion of the milk which entered into these shipments was purchased from producers at Class I prices, while the remainder was accounted for at non-Class I prices, varying between an arbitrary allowance in addition to the prevailing Class II prices and prices based on butter market quotations.

An effort has been made to trace through the utilization of these cream and skim milk shipments in order to determine the ultimate usage. Data from individual plants have been collected and summarized on an aggregative basis. In many cases it was possible to identify and to follow through to the final destination the particular shipments discussed in the previous section. In some others, however, a physical segregation of supplies from plants in outside areas was not maintained to distinguish these from

other sources—such as those derived from local separation. In these latter cases—and where these shipments were consigned directly to fluid milk plants—it was necessary to assume that the receipts from plants in other marketing areas were allocated among all requirements of the plant in the same proportions that the total supplies were used. In the discussion to follow, cream usage and skim milk usage will be considered separately.

**Cream Utilization.**—Similar to the treatment of producer payment records, it was found expedient to divide the plants from which utilization data were collected into two groups. The first of these included those plants which received cream

<sup>15</sup> This does not imply, of course, that the specific quantities of skim milk entering into these intermarket shipments were derived from milk paid for at Class I prices. There is no necessary identity between the 45 per cent of total milk supplies paid for at Class I prices and the 10 per cent of the total skim milk derived from separation that entered into intermarket shipments.

**Table 5.—Summary of Utilization of Intermarket Cream Receipts, 24 Major City Plants, June, 1950–May, 1951**

Month	Percentage utilization by classification					Total use pounds milk fat
	Fluid milk	Fluid cream	Fluid by-products*	Sold to other distributors	Manufactured products†	
1950:						
June.....	3.8	78.3	1.4	8.9	7.0	0.6
July .....	4.0	77.6	1.7	9.8	6.2	0.7
August.....	3.5	82.0	1.6	7.6	4.6	0.7
September.....	2.3	82.3	1.8	7.7	5.0	0.9
October.....	1.1	88.4	2.7	3.4	2.5	0.9
November.....	1.0	88.0	1.9	3.3	5.0	0.8
December.....	0.9	89.4	1.4	2.6	5.1	0.6
						445,082
1951:						
January.....	0.5	91.2	1.3	1.1	5.2	0.7
February.....	0.5	86.9	1.5	8.2	2.2	0.7
March.....	0.8	87.9	1.4	6.4	2.8	0.7
April.....	1.1	82.7	1.9	8.3	5.4	0.6
May .....	1.5	83.2	1.9	8.5	4.4	0.5
	2.0	83.6	1.7	7.1	4.9	0.7
Summary for period.....						7,847,664

\* Includes fluid skim and chocolate drink.

† Includes ice cream, cottage cheese, buttermilk, etc.

and skim milk from plants in other areas in large quantity and with relative regularity. Twenty-four city plants—the major recipients of cream supplies from extra-area sources—were included in this group. All of these 24 plants were located either in metropolitan Los Angeles or the Bay Area. The results of the summary of these utilization data will be found in Table 5.

It will be noted from this table that the plants included in this group—those which regularly received relatively large shipments of Grade A cream from plants in other areas—account for about 7.8 million pounds of fat. For some months, these totals are larger than those reported shipped by the 17 country plants in Table 2 (p. 12), and indicate that the city plants in this group, in addition to receiving the bulk of the cream shipped by the country plants, also received cream from the extra-area plants described in Table 4. Of this total quantity of cream, the predominant use was for sales as fluid cream. The reported amount used as fluid cream is approximately 30 per cent of the total milk fat in cream sold in California markets during the period under study. Approximately 87 per cent of the cream received from plants in other areas was utilized in Class I products for standardizing fluid milk, for bottled cream, and for such by-products as require the use of market grade milk. About 5 per cent of the receipts from these sources was directly reported to have gone for manufacturing purposes. In addition, more than 7 per cent was reported as sold to other fluid milk distributors where the final disposition is unknown.

It is interesting to note the effect of a further procedure of the Bureau with reference to accounting for usage of cream supplies from plants in outside areas. Several city plants follow the practice of physically segregating these supplies from those obtained by local separation. When this is done, and acceptable proof is shown that extra-area plant supplies

were used for Class I purposes, current procedures permit these supplies to be deducted from the total Class I sales in accounting to local producers.<sup>16</sup> Under these circumstances, it is possible that neither the local producers nor those shipping through country plants receive Class I prices for these Class I sales.

In addition to the utilization records of the 24 major city plants presented in Table 5, information concerning usage of cream supplies from plants in outside areas was collected from 45 other city processing plants. As was the case with the supplementary producer payment records collected from the miscellaneous group of plants which shipped cream, the data obtained were collected in less detail. Sufficient information was secured to allow a breakdown of classification into products as Class I or Class II. The summarization of this material is shown in Table 6. From this it can be seen that a relatively larger proportion of the 45 extra-area plant receipts was used for manufactured product purposes than was used by the plants reported in Table 5. Approximately 40 per cent of the total receipts of this type ultimately went into manufacturing uses and was, therefore, apparently in the nature of transfers of "surplus"<sup>17</sup> Grade A milk fat. During the same period of time, roughly 50 per cent was utilized in Grade A products, while 10 per cent was sold to other distributors.

Records from both groups of plants for which utilization data were analyzed have been combined and are summarized in Table 7. This indicates that the study included approximately 8.25 million pounds of milk fat—or the equivalent of about 22 million pounds of cream of 38 per cent fat content. Of this total, over 85 per cent was utilized for Class I purposes,

<sup>16</sup> An apparent inconsistency in Bureau policy is noted here, in that the definition of what constitutes "acceptable proof" differs between the Los Angeles and the Bay Area markets.

<sup>17</sup> As used in this sense, "surplus" refers to all supplies in excess of the total requirements for the individual plant.

**Table 6.—Summary of Utilization of Cream Receipts from Extra-area Plants (45 Supplementary Plants) June, 1950–May, 1951**

Month	Percentage utilization by classification			Total use pounds of milk fat
	All Class I products	Manufactured products	Sold to other distributors	
1950:				
June.....	49.1	24.1	26.8	62,907
July.....	52.7	20.2	27.1	41,632
August.....	57.3	24.6	18.1	41,168
September.....	79.6	14.0	6.4	25,721
October.....	51.5	48.5	....	30,998
November.....	61.0	39.0	....	35,220
December.....	43.1	51.1	5.8	28,770
1951:				
January.....	32.7	67.3	....	35,179
February.....	32.1	67.9	....	21,384
March.....	51.8	48.2	....	22,790
April.....	45.7	54.3	....	26,177
May.....	59.1	40.9	....	23,578
Summary for period.....	51.3	38.9	9.8	395,523

**Table 7.—Summary Cream Utilization, All Plants from Plants in Other Areas, June, 1950–May, 1951**

Month	Percentage utilization by classification			Total use pounds of milk fat
	All Class I products	Manufactured products	Sold to other distributors	
1950:				
June.....	81.5	8.6	9.9	1,095,781
July.....	81.9	7.5	10.6	938,542
August.....	85.7	6.2	8.1	877,608
September.....	86.0	6.3	7.7	632,209
October.....	90.2	6.6	3.2	443,744
November.....	88.5	8.4	3.1	438,623
December.....	88.8	8.4	2.8	473,852
1951:				
January.....	88.5	10.5	1.0	464,935
February.....	86.6	5.6	7.8	505,545
March.....	88.8	5.0	6.2	656,257
April.....	84.4	7.5	8.1	828,294
May.....	85.9	5.9	8.2	887,797
Summary of period.....	85.6	7.2	7.2	8,243,187

and the remainder was approximately equally allocated between manufacturing uses and sales to other distributors. The major part of the classification, "sales to other distributors," involves shipments to cream "jobbers," in which case the cream is normally resold as bulk cream prior to final disposition.

**Utilization of Skim Milk.**—More than 9 million of the 22.3 million pounds of skim milk reported shipped (table 1, p. 8) involved sales directly to manufacturing plants and so were considered

to represent non-Class I usage. It was possible to obtain reliable records on only 5.6 of the remaining 13.2 million pounds of skim milk involved in intermarket transfers. These partial utilization records indicate that, on the average and during the period under study, 70 per cent of these skim milk supplies was used for standardization of Class I products, 9 per cent went directly to manufactured products, 18 per cent was resold to other distributors, and 3 per cent went to plant loss or was dumped.

## INTERPLANT RESALE PRICES FOR BULK GRADE A CREAM AND SKIM MILK

Considerable variation existed in the prices at which bulk Grade A cream and skim milk sales were made during the June, 1950–May, 1951, period under study. The range—indicating both the highest and lowest—of prices reported is

shown in Table 8. It should be noted that these price reports do not include those where interplant shipments are made between plants operated by the same firm, on the grounds that many of these are in the nature of intracompany—or "shad-

**Table 8.—The Range of Selling Prices Reported for Interplant Shipments of Grade A Cream and Skim Milk, by Months June, 1950–May, 1951**

Month	Cream prices per pound of fat		Skim milk prices per hundredweight	
	Low	High	Low	High
dollars				
1950:				
June.....	0.75	1.00	1.24	1.40
July.....	0.76	1.00	1.23	1.44
August.....	0.77	1.00	1.25	1.40
September.....	0.83	1.04	1.25	1.72
October.....	0.84	1.06	1.25	2.33
November.....	0.84	1.04	1.25	2.33
December.....	0.82	1.06	1.25	1.80
1951:				
January.....	1.04	1.16	1.36	1.80
February.....	1.04	1.16	1.38	1.80
March.....	0.96	1.17	1.45	1.80
April.....	0.96	1.09	1.47	1.80
May.....	0.96	1.10	1.47	1.80

ow"—charges and do not necessarily directly focus on existing supply and demand conditions.

The high and low cream prices are plotted on Figure 3 along with quotations for both Grade A and manufacturing cream taken from the San Francisco jobbing market. The latter quotations also provide for a range of prices, and both the low and high jobbing prices are indicated. It will be noted that the high prices reported for bulk cream sales closely approximate—and, during most months, slightly exceed—the high level of jobbing cream prices. On the other hand, the low cream prices follow the manufacturing or Grade B jobbing cream prices during the seasons of flush production but rise somewhat above this level during the winter months. At all times during the twelve-month period, however, quantities of Grade A cream were being sold at below

the reported Grade A jobbing market prices. No price quotations exist for skim milk, so similar comparisons with these reported prices could not be made.

Presumably, the low prices which are shown in Table 8 represent sales at or near manufacturing grade prices when a more profitable market is not available. The fact that such price differentials exist for physically and legally identical commodities, however, suggests one or both of the following: (1) the people who make these transactions are ill-informed as to the prices which prevail for similar sales; or (2) buyers and sellers are not free to shift and so obtain the best possible price from their own standpoint. At any rate, these prices indicate that city plants have been able to obtain some supplies of both Grade A cream and skim milk during most of the year at something less than the prevailing Class I prices.

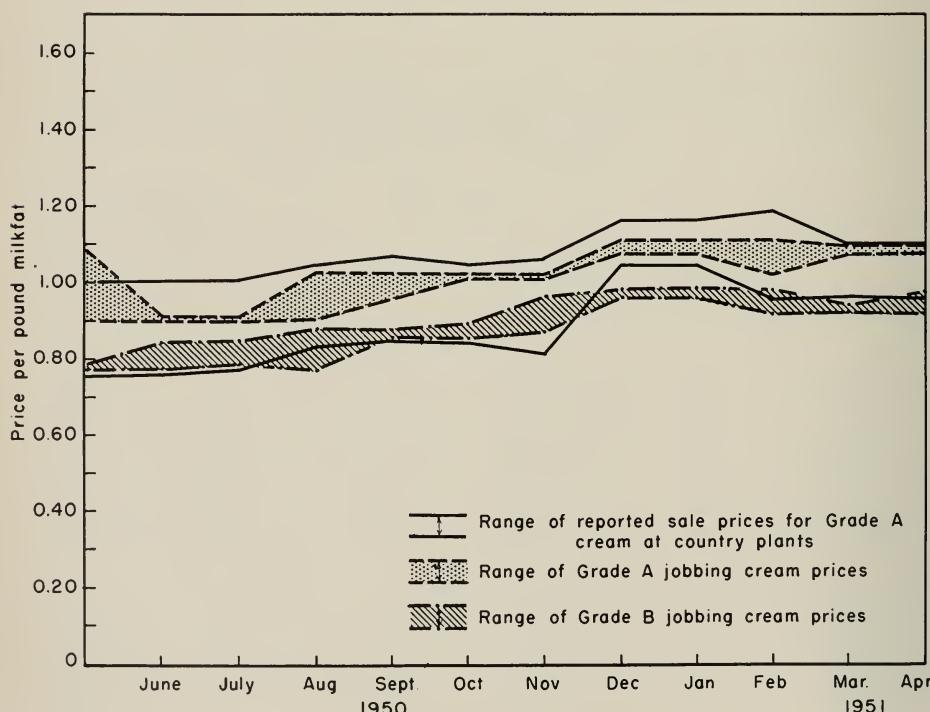


Fig. 3.—Comparison of reported range of selling prices for Grade A cream with San Francisco jobbing prices.

## GRADE A CREAM-SKIM MILK BALANCE

Table 9 presents figures showing the difference between the average milk fat test of market grade milk received by distributors and the average test of all products sold which require the use of this grade of milk.<sup>18</sup> As this indicates, there tends to be a relative shortage of Grade A milk fat since the outgoing Class I products involve a higher test of milk than is received from producers as whole milk. Furthermore, this relative shortage of Grade A fat is more aggravated in southern California than for the state as a whole since, in that area, the average test of milk received tends to be lower and the test of outgoing products to be

<sup>18</sup> This includes fluid milk—both standard and premium grades—fluid cream, fluid skim milk, and chocolate drink.

higher than the averages relating to the state as a whole. This means that distributors—particularly those in southern California—will have “surplus” Grade A skim milk as a result of standardizing operations to obtain the required quantities of fat.

In order to determine more closely the utilization of Grade A cream and skim milk supplies, records of total cream and skim milk disposition were obtained from 25 city plants located in the Los Angeles and the Bay areas. These records included both supplies obtained from local separation and receipts from other plants, and covered 9.4 million pounds of milk fat in cream and nearly 180 million pounds of skim milk. Although individual plants showed a high degree of variation, the

**Table 9.—Average Fat Test of Incoming Milk and of Outgoing Class I Products, California, June, 1950–May, 1951\***

Month	State		Southern California†	
	Average test of all receipts of market grade milk	Average test of total Class I sales‡	Average test of all receipts of market grade milk	Average test of total Class I sales
	per cent milk fat			
<b>1950:</b>				
June.....	3.70	4.15	3.62	4.18
July.....	3.71	4.10	3.62	4.10
August.....	3.74	4.08	3.66	4.09
September.....	3.82	4.07	3.75	4.09
October.....	3.90	4.05	3.82	4.07
November.....	3.98	4.09	3.88	4.11
December.....	4.01	4.12	3.88	4.12
<b>1951:</b>				
January.....	4.04	4.06	3.90	4.07
February.....	3.97	4.05	3.86	4.04
March.....	3.89	4.04	3.79	4.06
April.....	3.76	4.06	3.69	4.08
May.....	3.73	4.09	3.65	4.09

\* Source: Dairy Information Bulletin, monthly reports of the California Crop and Livestock Reporting Service.

† Includes Los Angeles, Orange, San Bernardino, Riverside, San Diego, Imperial, Ventura, Santa Barbara, and San Luis Obispo counties.

‡ Includes fluid milk (standard and premium grades), fluid cream, fluid skim milk, and chocolate drink.

average of the group indicates that 76 per cent of all Grade A cream and 69 per cent of the Grade A skim milk supplies were used for Class I purposes. By area, it appears that the plants located in Los Angeles have a much lower Class I skim milk utilization relative to Class I milk fat sales than do those located in the Bay Area. For the plants located in Los Angeles, 81 per cent of the fat and 60 per cent of the skim milk were used for Class I purposes, while comparable statistics for the San Francisco plants and East Bay plants are 78 per cent and 80 per cent, and 70 per cent and 72 per cent, respectively.

From this, it appears that distributors

in the Los Angeles area meet the problem of the relative shortage of Grade A milk fat in two ways: (1) through local separation, which leaves them with supplies of skim milk substantially in excess of Class I uses; and (2) by "importing" cream supplies from Valley plants, in which case the excess skim milk remains in the Valley for use in manufactured dairy products. In the Bay Area, where the relative shortage of fat is less pronounced, Class I skim utilization has been in close pace with fat usage. This implies that this northern group of plants, on the average, have not found it necessary to rely as heavily on local separation to meet their fat deficit.<sup>19</sup>

## THE IMPACT OF INTERMARKET TRANSFERS OF BULK GRADE A CREAM

The preceding discussion has indicated that with the present system of milk classification in California—i.e., where fluid milk, fluid cream, fluid skim milk, and chocolate drink are considered Class I usage—there is a relative deficit of Grade A milk fat. To meet this shortage, city distributing plants must either receive and separate additional quantities of whole milk and so face the problem of a profitable disposition of the excess skim milk supplies thus obtained, or bring in additional milk fat in the form of cream from plants in surplus producing areas where the skim milk commonly is diverted directly into manufacturing uses. Due to the lack of extensive facilities for the production of nonfat dairy products in city milk plants and the costly transportation charges (relative to value) attendant upon hauling skim milk, the latter procedure of "importing" cream supplies is often the most efficient system.

On the assumption that one of the objectives of milk price control is to provide uniform prices for milk of like quality and used for comparable purposes, the omission of this source of milk supplies—bulk interarea transfers of cream and

skim milk—from price control constitutes a "loophole" within the milk control system. Through this device, distributors may be able to obtain raw product supplies at lower cost than indicated by the prices established by the Bureau of Milk Control for supplies from alternative sources.<sup>20</sup> Such a possibility, of course, presumes that the distributors are not restrained from so doing, either by the nature of competitive conditions, by a sense of business ethics, or through lack

<sup>19</sup> This does not imply that local separation is more important as a source of total cream supplies to the Los Angeles plants than to Bay Area plants, but only that local separation is a more important source of providing the deficit between the average test of incoming and outgoing fluid milk and cream supplies.

<sup>20</sup> The fact that prices paid for milk used for cream are less than Class I prices does not necessarily mean that such cream supplies were obtained cheaper than cream supplies from milk purchased at Class I prices, since in the latter case the extra value of skim milk for Class I purposes *may* exceed the difference between the price paid for milk for cream and the Class I price. The magnitude of the differences reported in Table 3, however, would indicate that, for several of the months covered by the study, country plant sources have yielded a "cheaper" cream supply for most of these plants.

of knowledge that such possibilities exist. Furthermore, these possibilities are present through several different types of actions. The following lists some of the means by which distributors may now legally obtain raw product supplies from extra-area plants—provided the city distributing plants are not located in areas where cream price plans are effective—and so reduce their costs:

- (1) Grade A cream and/or skim milk supplies may be obtained through country plants.
- (2) City distributing plants located in separate marketing areas may "exchange" cream and/or skim milk.
- (3) Coupled with the fact that accounting to producers for use is done entirely on a milk fat basis, plants may arrange to ship excess supplies of Grade A milk fat out-of-area and so obtain low-cost, Grade A skim milk for local use.

This investigation has determined that relatively large quantities of Grade A cream originate at country plants. Furthermore, the final utilization of this cream is largely through products classified by the Agricultural Code as Class I. In fact, the quantities of country plant cream reported to have been bottled and sold as fluid cream during the period under study accounted for approximately 30 per cent of the milk fat contained in the total sales of market cream and half-and-half within the state during the twelve-month period studied. In the aggregate, producers were paid Class I prices for approximately 45 per cent of the milk from which these country plant

cream shipments were derived. Virtually all of the remainder was purchased at Class II or manufacturing grade prices. An important exception involves one plant where payment was based on butter market quotations. In addition to direct payment for this milk, many country plants also paid a "bonus" at the end of each calendar year, covering all milk received. These facts—the payment of Class I prices without legal requirement and the payment of bonuses—bespeak the competitive nature of the milk industry in this area.

Little evidence exists that distributors were making use of this interpretation of the Agricultural Code to gain cost advantages through the aforementioned "exchanging" of cream supplies. In one instance, however, relatively large shipments of cream were reported moving in both directions between two plants during the same months. With this exception, none of the distortions in supply procedure that might be expected under conditions where a price advantage might be gained were noted.

From the records upon which this study was based, it was impossible to determine the extent to which distributors have used the procedure of separating milk for out-of-area cream sales as a device to obtain low-cost skim milk. These records do indicate, however, that approximately 90 per cent of the skim milk obtained from separation was retained by the country or other shipping plants. Producer payment for these supplies of skim milk, under present procedures, follows the prices paid for cream.

## **RECOMMENDED CHANGES IN PRICING PRACTICES**

In spite of the fact that gross distortions in the marketing channels were not observed during the period studied, failure to price Grade A cream and skim milk components where interarea transfers are involved results in the following conditions:

1. Producers do not receive uniform

treatment. Those shipping to city plants where sales are made within the marketing area are guaranteed payment for all of their milk according to usage. Producers shipping to plants making intermarket cream transfers—particularly those supplying country plants—do not have this same guarantee.

2. Distributors do not incur uniform raw product costs for cream supplies received from alternative sources. City plant supplies obtained from local separation must be accounted for and payment made according to usage. This same does not apply to cream supplies received through country plants owned by the same firm. Furthermore, as evidenced by the data in Table 3, p. 14, some distributors are able to obtain a greater price advantage through the present procedure than are others.

3. The exemption of these Grade A milk supplies from price control creates conditions where jobbing prices for Grade A cream easily may become out of line with the minimum prices established by the Bureau of Milk Control. Under conditions where jobbing prices are depressed due to excess supplies, distributors may gain by obtaining cream supplies from this source and so increase the quantities of surplus milk carried by local producers.

4. The fact remains that incentives to modify practices to take more complete advantage of the differences in costs afforded by uncontrolled versus controlled supplies exist, even if their operation is restricted currently as a result of competitive circumstances, short supplies, or other allied reasons.

In view of the above, it would appear necessary in the interest of equity and to the continued successful operation of price control in the market milk industry to close the "loophole" afforded by the present procedure of eliminating bulk shipments of Grade A cream and skim

milk from the jurisdiction of the Bureau of Milk Control. In so doing, distributors would be required to account to all producers for payment according to use. This would eliminate the disparity between producers which now exists and would tend to reflect more closely uniform raw product costs between distributors.

It should be recognized, however, that many problems are inherent in establishing use classification for these supplies—particularly with respect to payment for cream derived at country plants. As discussed earlier, city plants as a whole enjoy Class I utilization of skim milk to approximately the same extent as the Class I usage of milk fat. Country plants, on the other hand, have diverted approximately 90 per cent of their Grade A skim milk to manufacturing uses, which yield lower returns than comparable skim milk with a Class I market. In view of this and the attending possibilities for serious inequities, it is strongly recommended that earnest attention be given to establishing separate prices—by use classification—for both the fat and the skim milk components of market grade milk. To accomplish this without creating further inequities and distortions requires consideration of the complex set of interrelationships involving the separate prices for cream and skim milk, prices for whole milk, and the butterfat differential. This problem is not being considered in this report but will be the subject of a separate publication soon to be made available.

## **APPENDIX**

On the following pages are State Senate Resolutions Nos. 110, 130, and 147, upon which the current study of milk pricing practices was initiated.

**SENATE RESOLUTION NO. 110**

Relating to an investigation and report relative  
to the sale of butterfat and skim from  
surplus market milk

WHEREAS, The practice of selling butterfat separated from market milk in one marketing area and of selling the skim derived therefrom in another marketing area is allegedly becoming widespread; and

WHEREAS, This practice may adversely affect the dairy industry and the interests of the milk consumers of the State; now, therefore, be it

RESOLVED BY THE SENATE OF THE STATE OF CALIFORNIA, That the Director of the Department of Agriculture be and he is hereby requested to investigate the extent to which producers, distributors, or producer-distributors in a given marketing area are engaging in the practice of selling skim milk within the area derived from market milk which is surplus as a result of the separation of butterfat therefrom for sale in a different marketing area, and to report thereon to the Senate not later than June 1, 1951, including in said report recommendations for such legislation as the said director may deem necessary; and be it further

RESOLVED, That the Secretary of the Senate be and he is hereby requested to transmit a copy of this resolution to the Director of the Department of Agriculture.

Resolution read, and referred to Committee on Agriculture.

**SENATE RESOLUTION NO. 130**

Relative to the marketing of fluid milk and fluid cream

WHEREAS, It was one of the purposes of the Legislature in enacting the law relating to the stabilizing and marketing of fluid milk and fluid cream which now appears in Chapter 12 of Division 4 of the Agricultural Code, to prevent the destructive practice commonly known as a price war in relation to fluid milk and fluid cream; and

WHEREAS, Pursuant to said law plans in relation to fluid milk have been put into operation for all of the major marketing areas, but plans in relation to fluid cream have not been put into operation except in a very limited area; and

WHEREAS, In those areas in which there is no plan in relation to fluid cream, it is possible for a price war in relation to fluid cream to exist, and it is reported that such a condition now exists in the San Francisco area; and

WHEREAS, Both fluid milk and fluid cream are produced under the conditions required for the production of Grade A milk and the price paid to the producer of fluid milk depends to a large extent upon the price for which the fluid cream derived from such fluid milk is sold; and

WHEREAS, The depression of the price at which fluid cream is sold not only has a disadvantageous effect upon the producers of the fluid milk from which such cream is derived, but it tends to throw the whole system for establishing minimum prices for milk and cream into disrepute in the eyes of the public, who are unable to see why the price of fluid milk should not come down when the price of fluid cream is lowered; and

WHEREAS, The Legislature needs to be advised as to the facts of the situation purporting to exist in the San Francisco area, whether or not such conditions exist elsewhere in the State, and whether or not further legislation is necessary in the premises; now, therefore, be it

RESOLVED by the Senate of the State of California, That the Director of Agriculture is hereby requested to make such investigation as may be necessary in order that he may report to this Senate on the facts and matters mentioned in this resolution, together with his recommendations as to any legislation which may be necessary to prevent the existence of price rules in relation to fluid cream, and to report his findings and recommendations to this Senate on or before the first day of June, 1951.

**SENATE RESOLUTION NO. 147**

Relative to milk and cream

WHEREAS, Senate Resolutions 110 and 130 have been adopted pertaining to the pricing of skim milk and payments for cream respectively; and

WHEREAS, Certain information relative to the subject matter of these two resolutions has been requested from the Director of the California State Department of Agriculture; and

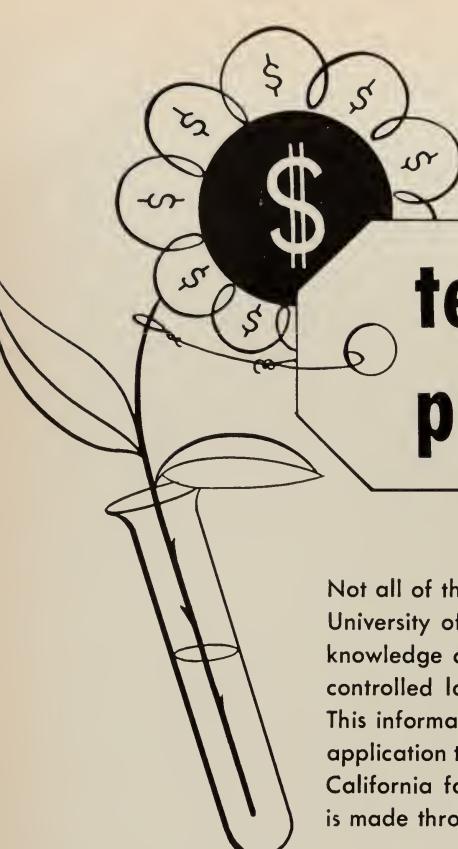
WHEREAS, The Director of Agriculture has indicated that complete information on these subjects will involve considerable detailed research, some of which is beyond the scope of the regulatory and service functions of the department and would require certain additional analysis by an agency regularly engaged in research functions; and

WHEREAS, The relative beneficial values for consumers of fluid milk and the price differentials in the returns to producers thereof are reported to be significant when the milk fat content of such fluid milk is increased above the minimum of 3.5 percent now established by law and has been recommended to be established at varying percentages up to 3.8 percent; now, therefore, be it

**RESOLVED BY THE SENATE OF THE STATE OF CALIFORNIA,** That it is recommended to the Director of the State Department of Agriculture with reference to those features of the subject matter requiring the attention of an official research agency that he contract with the Giannini Foundation of the University of California to develop certain phases deemed essential to a complete study of the items referred to hereinabove and that the funds for use in any such contract be made available from the Department of Agriculture Fund and out of moneys derived from collections under the provisions of Chapter 13, Division 4, of the Agricultural Code.

Resolution read, and on motion of Senator Hatfield, adopted.

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#### LITERATURE:

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